

Portland Retail

Market Forecast

Trends

Absorption	↑
Vacancy	↔
Rental Rates	↑
Construction Deliveries	↑
Under Construction	↓

Notable Lease Transactions

Coastal Farm & Ranch
1900-1926 SE McLoughlin Blvd, Oregon City
87,167 s.f. Leased (renewal)

Hobby Lobby
8612-8974 SE Sunnyside Road, Clackamas
45,121 s.f. Leased

Target
3031 SE Powell Blvd, Portland
32,100 s.f. Leased

Notable Sale Transactions

Retail Opportunity Investments Corp.
Division Center, Portland
122,000 s.f. Investment Purchase
\$33M or \$270/s.f.

Kornwasser Realty Advisors
Southgate Shopping Center, Portland
50,862 s.f. Investment Purchase
\$11.65M or \$229/s.f.

Julie Yang
Carl's Jr., Portland
2,124 s.f. Investment Purchase
\$2.3M or \$1,083/s.f.

The Portland market stayed at the forefront of national trends in retail during the second quarter of 2017, enjoying 234,871 square feet of positive net absorption. Vacancies held at 4.1%, as fitness centers, food halls, breweries, and other non-traditional establishments supplanted brick-and-mortar stores to keep vacancies low in the area's retail corridors and shopping centers. Meanwhile, local and national investors reaffirmed the strength of metro Portland's retail assets, trading single-tenant properties with nationally known tenants at cap rates below 6%, while well located shopping centers achieved more than \$200/sf. Rental rates have risen by an average of 6.2% year over year, to \$19.05 NNN marketwide, with desirable offerings in Portland CBD and the Lloyd District asking over \$25 NNN. Local retailers and restaurateurs continue to benefit from a strong regional economy, as Oregon's unemployment rate fell to a record-low 3.6% in May.

Vacancy, Availability, and Net Absorption

Metro Portland reported 234,871 square feet of positive net absorption this quarter, leaving vacancies unchanged at 4.1% amid 191,053 square feet of new deliveries. Sunset Corridor/Hillsboro gained 85,583 square feet of occupied retail space, as Marshalls and Sierra Trading Post each opened a roughly 22,000 square foot store at Tanasbourne Town Center (18000 NW Evergreen Parkway) in Hillsboro. Three BFit gym openings contributed a total of 61,000 square feet of positive net absorption marketwide, including 21,600 square feet at 14800 SE Sunnyside Road in Happy Valley, part of Southeast Portland, which led the market with 125,806 square feet of positive net absorption over the past three months. Finally, 99 Ranch Market contributed 36,960 square feet of positive net absorption in Beaverton when it occupied 8155 SW Hall Boulevard, a freestanding building subleased from Albertsons in December.

→ Continued, page 2

Area Review

Portland Retail Market Statistics

Submarket Cluster	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Total Availability Rate	Q2 Net Absorption	YTD Net Absorption	Quarterly Leasing Activity	YTD Leasing Activity	Avg Annual Asking Rate
CBD	4,580,420	8.90%	8.90%	9.10%	(174,414)	(189,396)	10,805	16,915	\$25.38
Lloyd District	5,592,915	4.60%	4.60%	8.00%	(18,303)	(16,366)	7,357	11,092	\$23.42
Northwest	1,668,636	3.00%	3.00%	3.30%	(4,281)	3,613	2,880	9,880	\$21.74
Sunset Corridor/Hillsboro	9,749,836	2.10%	2.20%	2.90%	85,583	117,057	38,725	114,178	\$19.61
I-5 Corridor	11,385,974	4.60%	5.30%	5.80%	65,941	38,869	40,040	73,201	\$19.80
Northeast	20,521,215	3.10%	3.10%	3.70%	44,079	109,759	69,922	124,688	\$18.03
Southeast	23,078,500	3.30%	3.40%	4.00%	125,806	186,799	152,637	341,567	\$17.08
Southwest	13,701,163	3.90%	4.00%	5.30%	31,158	3,925	28,941	84,709	\$22.17
Clark County/Vancouver	18,928,334	5.20%	5.20%	5.70%	75,092	(6,786)	70,705	136,109	\$18.17
TOTAL	109,206,993	4.00%	4.10%	4.90%	234,871	246,948	422,012	918,313	\$19.05
Malls	6,694,417	3.30%	3.30%	5.50%	1,130	(923)	4,597	9,179	N/A
Power Centers	7,656,270	3.90%	3.90%	4.10%	18,953	17,190	54,756	103,980	\$20.90
Shopping Centers	37,093,396	6.50%	6.70%	7.40%	215,865	168,458	169,676	436,134	\$19.03
Specialty	511,806	0.00%	0.00%	0.00%	0	0	0	0	N/A
General Retail	57,251,104	2.47%	2.57%	0.13%	(1,077)	62,223	192,983	369,020	\$18.31

Leasing Activity

Leasing activity this quarter was consistent with levels seen in the past few periods, as 422,012 square feet of retail space came off the market in the Portland area. Hobby Lobby turned in the largest deal by size, grabbing the former Sports Authority space at Clackamas Promenade, with plans to open a 45,121 square foot store this fall. In the SE Close-In area, the AMF Pro 300 Lanes bowling alley at 3031 SE Powell Blvd will become a small-format Target store in the summer of 2018, after the national retailer signed a 30,100 square foot lease there in April. On the food-and-beverage side, Salem-based Vagabond Brewery continued its Oregon expansion. After opening a satellite store called Vagabond Outpost in Albany earlier this year, the craft beer maker took its first step into the Portland market with a 4,928 square foot lease at The Dairy Building (2705-2715 SE 8th Avenue) in Southeast Portland, part of Intrinsic Ventures' Ford District, a growing retail and maker-space hub.

Investment Activity

Second-quarter sale activity totaled 63 transactions involving 294,282 square feet of metro Portland retail real estate, amassing just over \$55 million in dollar volume. The average price tag jumped to \$320/sf, because smaller and single-tenant properties comprised a larger share of the assets sold this period than in previous quarters. On the single-tenant front, buildings leased to nationally recognized retailers continued to trade at sub-6% cap rates, underscoring their appeal to both individual and institutional investors. MBC Enterprises LLC, out of upstate New York, bought the Walgreens drug store at 17979 NE Glisan Street in the East Columbia Corridor for \$8.1 million or \$545/sf, which comes out to a 5.25% cap rate. The Carl's Jr. fast-

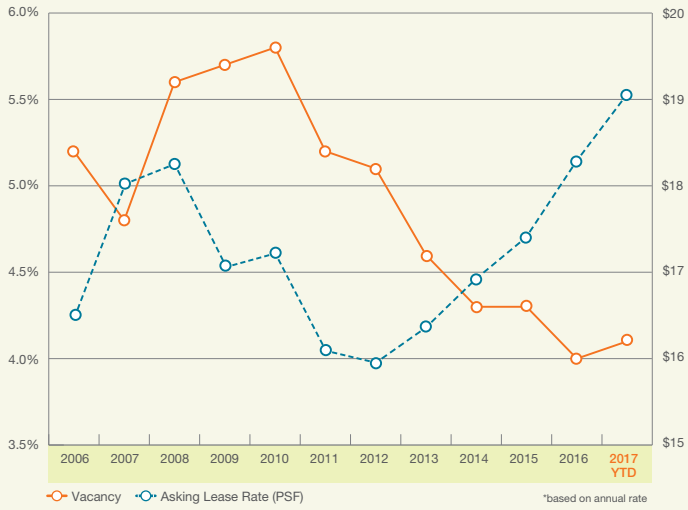
food restaurant at 17929 SW McEwan Road in Lake Oswego/West Linn achieved a 5.84% cap rate, going to a local individual investor for \$2.3 million or \$1,083/sf. Meanwhile, in the quarter's largest single outlay, San Diego-based Retail Opportunity Investments Corp. acquired the Division Center in Portland's Mall 205 submarket from Southeast Company for \$33 million or \$270/sf. The 122,000 square foot community center was 100% leased at sale, with tenants including Grocery Outlet, Rite Aid, and Crunch Fitness.

New Deliveries & Under Construction

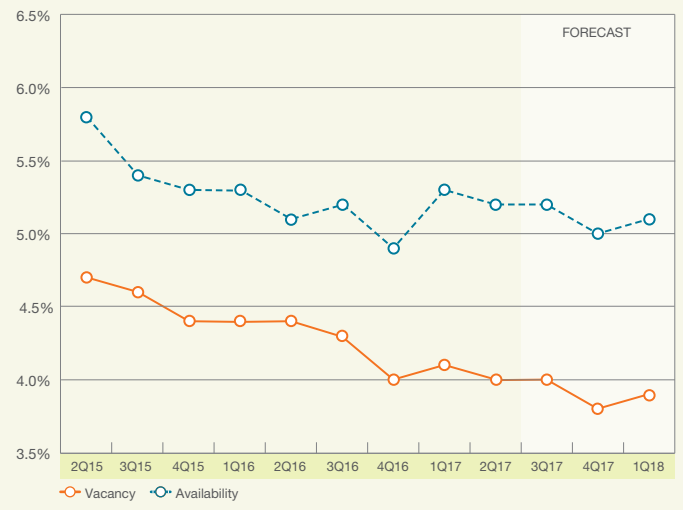
Thirteen retail projects were completed during the second quarter, with the new deliveries totaling 191,053 square feet. The largest individual delivery was Building D of the Hazel Dell Marketplace at 7905 NE 6th Avenue in Vancouver, a 36,000 square foot community center anchored by Marshalls, which opened for business in early June. Thirteen more retail developments were underway at quarter's end, with 317,943 square feet of inventory coming to metro Portland between them. The Cedar Hills Crossing II community center in Beaverton accounts for 128,652 square feet of the retail space under construction; it is set for delivery in the second quarter of 2018 with 44,446 square feet already preleased to Sunset Lanes bowling alley. Two notable single-tenant developments are slated for delivery during the second half of this year. A 38,000 square foot 24 Hour Fitness gym at 465 W Arlington Street in Gladstone will open during the third quarter, and a 36,000 square foot Restoration Hardware store 2280 NW Glisan Street in Portland is on track for completion in December.

Data Source: CoStar

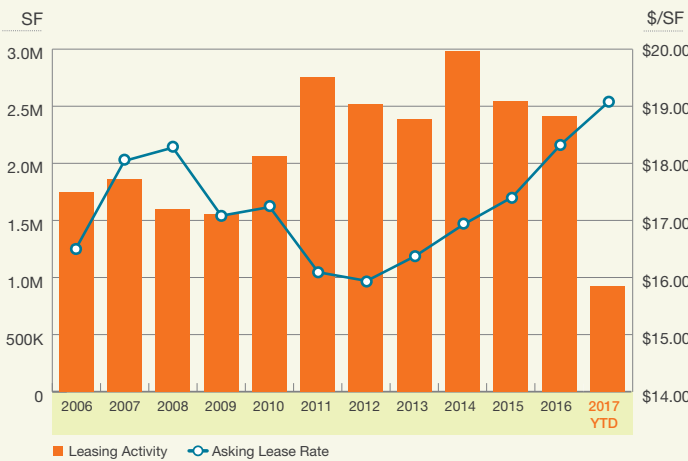
VACANCY VS ASKING LEASE RATE*



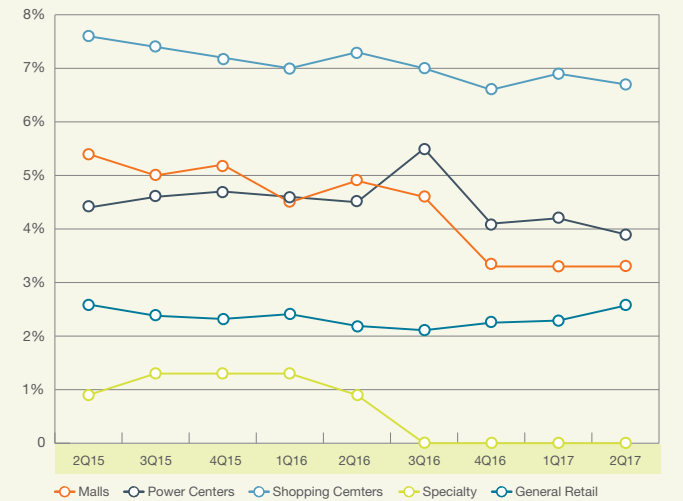
VACANCY VS AVAILABILITY



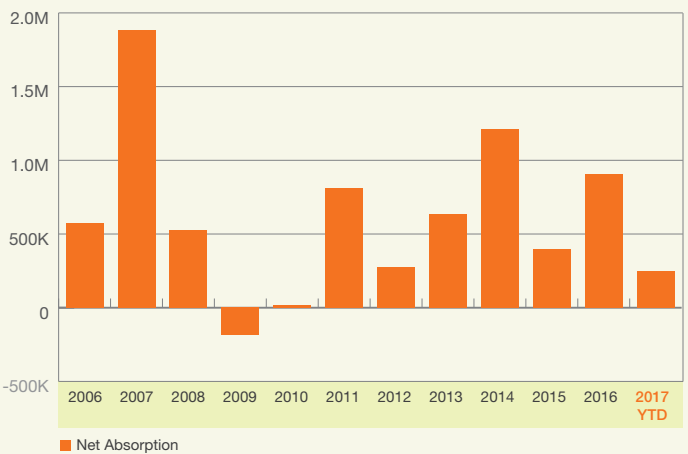
ANNUAL LEASING ACTIVITY & ASKING LEASE RATE



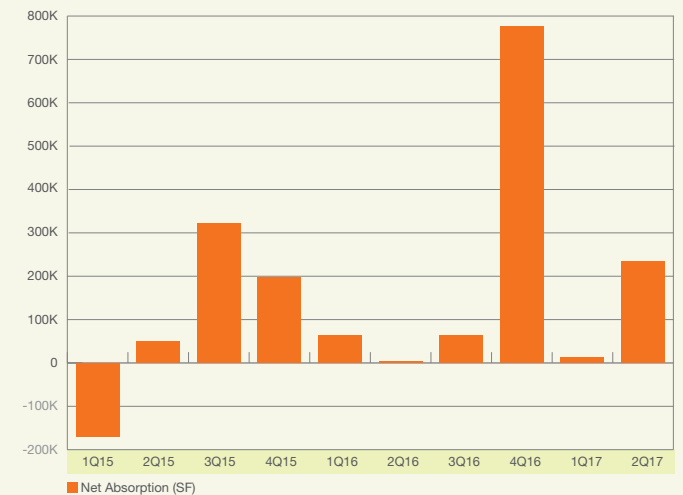
VACANCY BY RETAIL CENTER TYPE



NET ABSORPTION - HISTORICAL



NET ABSORPTION - QUARTERLY



Offices

Seattle
206.296.9600

Bellevue
425.454.7040

South Seattle
206.248.7300

Tacoma
253.722.1400

Olympia
360.705.2800

Portland
503.221.9900

San Francisco
415.229.8888

Redwood Shores
650.769.3600

Silicon Valley
408.970.9400

Sacramento
916.970.9700

Roseville
916.751.3600

Los Angeles
213.880.5250

Long Beach
562.472.0071

Commerce
323.727.1144

Orange County
949.557.5000

Inland Empire
909.764.6500

San Diego
858.509.1200

Carlsbad
760.430.1000

Reno
775.301.1300

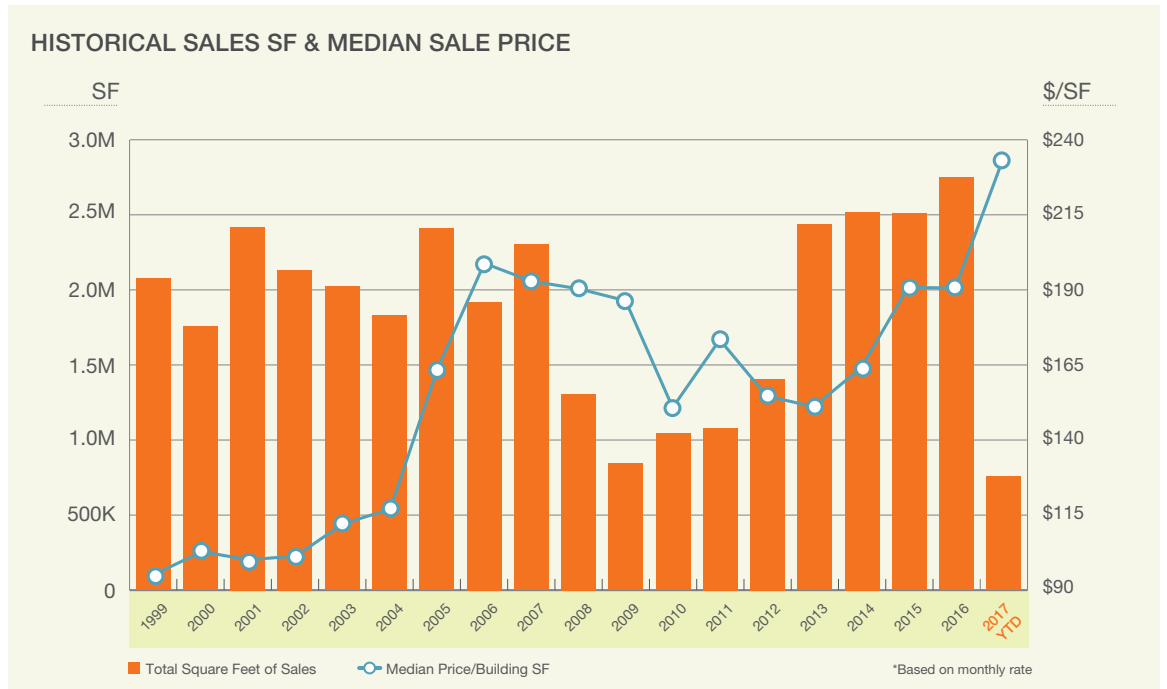
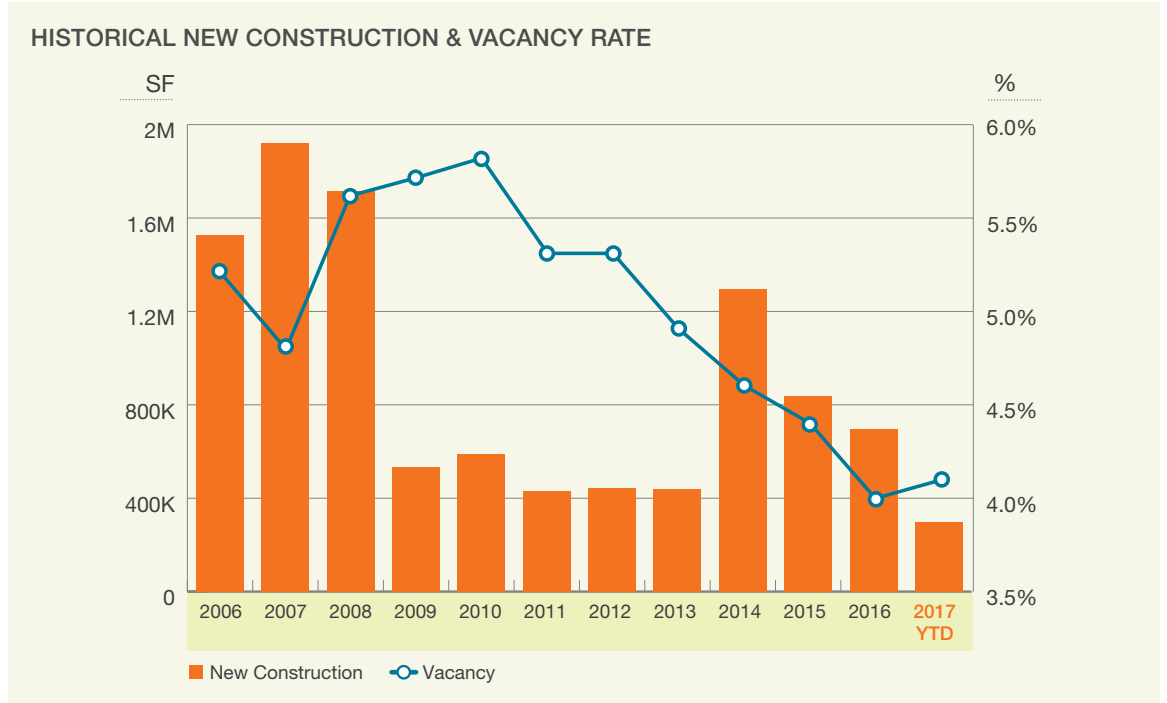
Phoenix
602.513.5200

Contact

Brian Hatcher
Executive VP, Brokerage
Pacific Northwest
206.296.9600
bhatcher@kiddermathews.com

Market Breakdown

	2Q17	1Q17	2Q16	Annual % Change
Vacancy Rate	4.1%	4.1%	4.4%	-6.9%
Availability Rate	4.9%	5.3%	5.1%	-5.7%
Asking Lease Rate	\$19.05	\$18.77	\$17.93	5.9%
Leased SF	422,012	496,301	606,535	-30.8%
Sold SF	294,282	461,885	772,366	-52.5%
Net Absorption	234,871	12,077	3,973	N/A



This information supplied herein is from sources we deem reliable. It is provided without any representation, warranty or guarantee, expressed or implied as to its accuracy. Prospective Buyer or Tenant should conduct an independent investigation and verification of all matters deemed to be material, including, but not limited to, statements of income and expenses. CONSULT YOUR ATTORNEY, ACCOUNTANT, OR OTHER PROFESSIONAL ADVISOR.